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COUNTRY AND INTERCOUNTRY PROGRAMMES AND PROJECTS

ASSISTANCE TO AFGHANISTAN

Note by the Administrator

1. The proposed third country programme for Afghanistan, covering the period 1984-1986, was not approved by the Governing Council because of the prevailing security situation. At its thirty-first session (1984), the Council concurred with the request of the Administrator to provide continued support for ongoing projects in Afghanistan and to consider for approval new projects consistent with the rules, regulations and normal criteria of the United Nations Development Programme (UNDP). At its thirty-second session (1985), the Council authorized the Administrator, in the absence of a country programme for Afghanistan, for the remaining portion of the third cycle to provide continued support for ongoing projects in Afghanistan, and to consider for approval new projects consistent with the rules, regulations and normal criteria of UNDP. At its thirty-fourth session (1987) the Council agreed to continue this arrangement for the fourth cycle. At its thirty-ninth session (1992), the Council agreed to continue this arrangement further for the fifth cycle.

2. During the fifth cycle, UNDP has delivered substantial assistance through six major projects. As well as utilizing carry-over resources from the fourth cycle, and indicative planning figure (IPF) funds for the fifth cycle, the projects have been able to attract significant cost-sharing and parallel financing. The various operational projects are making an important contribution to the building of stability in those (widespread) areas of the country that are peaceful but that suffer from the absence of a fully functional government and the breakdown of social services; they have also contributed to the return of refugees by establishing conditions that make it increasingly attractive for them to return. Recent evaluations of the main projects,

followed by a detailed programme review mission, have confirmed the appropriateness and success of these programmes, which are having considerable impact within the confines of the prevailing circumstances in the country, and have recommended their extension for a further period of two years. The missi particularly appreciated the role that UNDP has played in the renewal of traditional representative bodies (shuras) for community consultation. By involving local communities in identifying, implementing and monitoring small-scale, participatory activities aimed at the rehabilitation of the social and economic infrastructure, UNDP projects have made important contributions to alleviating poverty and creating sustainable livelihoods, as well as giving local communities a stake in the peace process. Significant achievements have been made in the areas of crop production, veterinary services, irrigation and other rural infrastructure, urban rehabilitation, water supply and sanitation, and the rehabilitation of the disabled.

3. Coordination with the United Nations Humanitarian Programme and all Unite Nations specialized agencies operational in Afghanistan has been greatly enhanced through the creation, with UNDP support, of the United Nations Programme Steering Committee, chaired by the Resident Coordinator, with five regional subcommittees that have brought together United Nations specialized agencies, non-governmental organizations (NGOs) and local authorities in technical working groups. Systematic coordination with NGOs, who are both donors to Afghanistan and implementing agencies for United Nations programmes, has resulted in several productive partnerships.

4. As a result of continuing civil strife in Afghanistan, it is not feasible to formulate a country cooperation framework. The Administrator therefore see the authorization of the Executive Board to continue to appraise and approve projects for the next two years on a project-by-project basis, consistent with the rules, regulations and normal criteria of UNDP, and within the new guidelines of the successor programming arrangements. When conditions permit, the preparation of a country cooperation framework will be initiated.

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MATTERS RELATING TO THE PROGRAMMING CYCLES

Earmarkings for the target for resource assignment from the core for 1997-1999

I. PURPOSE

1. Pursuant to the request of the Executive Board in paragraph 22 of its decision 95/23, the preliminary TRAC figures under line 1.1.1 for individual recipient countries were provided at the first regular session in January 1996 (see document DP/1996/CRP.2).

2. In the present document, the Administrator provides the revised and final target for resource assignment from the core (TRAC) earmarkings for 1997-1999.

II. TRAC EARMARKINGS FOR 1997-1999

3. Regarding indicative planning figures (IPFs), UNDP will consider revisions to the gross national product (GNP) per capita for resource distribution purposes only within a period of one year after the establishment of the TRAC earmarkings.[1] Thereafter, a revision will be considered only if (a) it varies 10 per cent from the original estimate or (b) such a revision will lower the GNP per capita below one of the thresholds that are of special significance for calculations, or for the establishment of government obligations for local office costs. No downward revision of established figures are made where there have been increases in estimates of GNP per capita.

[1] Paragraph 4 of decision 88/8; see also decisions 93/24 and 92/30, in which the Executive Board took note of paragraph 17 of document DP/1993/21 and paragraph 13 of document DP/1992/22, respectively.

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4. Since the adoption of Executive Board decision 95/23 and the subsequent calculation of preliminary TRAC earmarkings, the 1994 per capita GNP estimates for 45 countries have been revised downward. This has resulted in higher TRAC earmarkings for 14 countries. For the remaining 31 countries, all middle-income except one, the change in GNP per capita did not result in higher earmarkings, since their TRACs were determined by the floor principles established in decision 95/23, and their revised lower per capita GNP remained above the pertinent floor thresholds.

5. The total increase in TRAC resources from lines 1.1.1 and 1.1.2 for the concerned 14 countries amounts to $36.97 million for the three-year period. The floor data of two countries, Suriname and South Africa, have been corrected, resulting in an additional $2.27 million in TRAC earmarkings, and there is no longer a transitional TRAC earmarking shown for the British Virgin Islands, Netherlands Antilles and the Republic of Korea. The latter were already net contributor countries (NCCs) in the fifth cycle and, therefore, are not eligible for a transitional TRAC, in accordance with paragraph 23 of decision 95/23. The total increase in TRACs resulting from these changes and corrections amounts to $37.98 million (of which $22.79 million concerns line 1.1.1).

6. In its decision 95/23, the Executive Board established an unallocated reserve of $25 million for the three-year period, to finance, inter alia, upward revisions that arise from changes to 1994 basic data reported during 1996. At the annual session 1996, the Administrator informed the Executive Board that small inconsistencies had arisen in the application of the resource distribution methodology approved in decision 95/23 and that UNDP was making the necessary adjustments and charging the unallocated reserve. The allocations resulting from these adjustments totalled $8.25 million. Consequently, with only $16.75 million left in reserve, the additional amount of $37.98 million in TRAC earmarkings cannot be fully funded. However, the unfunded portion of $21.23 million should be considered in the light of the dynamic resource planning processes of UNDP and can be accommodated in the context of future assignments from line 1.1.2 and/or further adjustments in TRAC earmarkings based on available resources (see also para. 10 below).

7. The Administrator also wishes to draw the attention of the Executive Board to the fact that the TRACs of NCCs wil
l need to be reviewed after the accounts for fifth cycle obligations and payments have been finalized, consistent with decision 91/29. Thus, for NCCs that already had this status in the fifth cycle, the Administrator will reduce their reimbursable TRACs by any unfulfilled net contributor obligations in the fifth cycle. The Administrator expects to report to the Executive Board on any required adjustments in the TRACs for NCCs at the third regular session in September 1997.

8. Table 1 provides a summary of the final earmarkings for total TRAC resources under lines 1.1.1 and 1.1.2 for the period 1997-1999, broken down by category of country and by region. Table 2 provides the final earmarkings under line 1.1.1 for individual recipient countries, grouped by region. The calculations are based on latest available 1994 World Bank data on GNP per capita, and where such data are unavailable, on information obtained from

the United Nations Statistical Office. Those countries where changes have occurred are shown with an asterisk.

9. It may be recalled that an important element of the successor programming arrangements was the assumption of an initial $3.3 billion financial envelope for total core resources for the period 1997-1999, or an average annual figure of $1.1 billion. The TRAC figures shown in the attached tables have been calculated using this financial framework.

10. However, for prudent resource planning, as explained in document DP/1996/CRP.2, the Administrator has advised Resident Representatives that for programme planning purposes, TRAC earmarkings will be based on an estimated $1 billion in average annual contributions for the period 1997-1999. The figures shown in tables 1 and 2 will be prorated accordingly.

III. EXECUTIVE BOARD ACTION

11. The Executive Board may wish to: Take note of the final TRAC earmarkings under line 1.1.1 as shown in tables 1 and 2.

Table 1. Successor programming arrangements: Final earmarkings for TRAC lines 1.1.1 and 1.1.2 for 1997-1999

	(Millions of dollars)			As percentage of total TRAC	
	Preliminary	Final	Difference	Preliminary	Final
Total TRAC	1 625.0[a]	1 663.0	38.0	100	100
of which:					
Low income	1 418.0	1 465.7	47.7	87	88
Middle income	207.0	197.3	(9.7)[b]	13	12
of which:					
LDCs	968.8	1 003.5	34.7	60	60
Non-LDCs	656.2[c]	659.5[d]	3.3	40	40
Regional distribution					
Africa[e]	750.6	787.3	36.7	46	47
Asia and the Pacific	554.7	555.9	1.2	34	33
Arab States	128.6	128.6	-	8	8
Latin America and the Caribbean	110.4	110.5	0.1	7	7
Europe and the Commonwealth of Independent States	80.7	80.7	-	5	5

[a] Excludes $25 million of undistributed reserve.

[b] Decrease is a result of change in category for some countries.

[c] Net contributor countries (NCCs) account for $5.7 million or 0.35 per cent of total.

[d] NCCs account for $4.7 million or 0.28 per cent of total; Turks and Caicos Islands has graduated to NCC status.

[e] Geographical Africa increased from $838 million of 52 per cent of the total of the preliminary earmarkings to $874 million or 53 per cent of the total of the final earmarkings.

Table 2. Successor programming arrangements: Final earmarkings for TRAC line 1.1.1 for 1997-1999

Region	Country	Status [a]	see endnotes	1994 per capita GNP [b]	Target for resource assignment from the core under line 1.1.1 [c]
				dollars	millions of dollars
Africa	ANGOLA	LDC	d	350	13.601 *
	BENIN	LDC		370	8.596
	BOTSWANA			2,800	1.279
	BURKINA FASO	LDC		300	14.901
	BURUNDI	LDC		160	14.061
	CAMEROON			680	6.118
	CAPE VERDE	LDC		930	1.471
	CENTRAL AFRICAN REPUBLIC	LDC		370	6.776
	CHAD	LDC		180	13.402 *
	COMOROS	LDC		510	2.620
	CONGO			620	3.149 *
	CÔTE D'IVOIRE			610	8.470
	EQUATORIAL GUINEA	LDC		430	2.580
	ERITREA	LDC	d	130	9.344
	ETHIOPIA	LDC		100	33.649 *
	GABON			3,880	0.400
	GAMBIA	LDC		330	5.842
	GHANA			410	10.238 *
	GUINEA	LDC		520	8.120
	GUINEA-BISSAU	LDC		240	6.258
	KENYA			250	15.369 *
	LESOTHO	LDC		720	4.609
	LIBERIA	LDC	d	670	4.876
	MADAGASCAR	LDC		200	18.540 *
	MALAWI	LDC		170	19.682
	MALI	LDC		250	15.768
	MAURITANIA	LDC		480	5.267
	MAURITIUS			3,150	0.690
	MOZAMBIQUE	LDC		90	23.195
	NAMIBIA	LDC		1,970	2.092
	NIGER	LDC		230	15.515
	NIGERIA			280	27.558
	RWANDA	LDC		80	17.810 *
	SAO TOME AND PRINCIPE	LDC		250	1.252
	SENEGAL	LDC		600	7.819 *
	SEYCHELLES	NCC	h	6,680	0.156
	SIERRA LEONE	LDC		160	11.881
	SOUTH AFRICA			3,040	4.200 *
	SWAZILAND			1,100	0.918
	TOGO	LDC		320	8.302
	UGANDA	LDC		190	20.284 *
	UNITED REPUBLIC OF TANZANIA	LDC		140	25.525
	ZAIRE	LDC	d	130	29.115 *
	ZAMBIA	LDC		350	12.708
	ZIMBABWE			500	8.402
Africa total					472.408

Table 2 (continued)

Region	Country	Status [a]	see endnotes	1994 per capita GNP [b]	Target for resource assignment from the core under line 1.1.1 [c]	
				dollars	millions of dollars	
Asia and the Pacific	AFGHANISTAN	LDC	d	250	18.431	
	BANGLADESH	LDC		220	40.504	*
	BHUTAN	LDC		400	6.326	
	BRUNEI DARUSSALAM	NCC	g	14,240	-	
	CAMBODIA	LDC	d	240	16.560	
	CHINA			530	40.066	
	COOK ISLANDS		e	3,717	0.191	
	DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA		d	860	4.383	
	FEDERATED STATES OF MICRONESIA			1,890	0.282	
	FIJI			2,250	0.469	
	INDIA			320	48.101	
	INDONESIA			880	16.407	
	IRAN (ISLAMIC REPUBLIC OF)		d	1,410	1.906	
	KIRIBATI	LDC		740	0.528	
	LAO PEOPLE'S DEMOCRATIC REPUBLIC	LDC		320	9.561	
	MALAYSIA			3,480	1.251	
	MALDIVES	LDC		950	1.375	
	MARSHALL ISLANDS			1,680	0.275	
	MONGOLIA			300	5.275	*
	MYANMAR	LDC	d	260	34.360	
	NAURU	NCC	e, g	25,094	-	
	NEPAL	LDC		200	20.681	
	NIUE		d	2,050	0.137	
	PAKISTAN			430	21.521	*
	PAPUA NEW GUINEA			1,240	2.114	
	PALAU		e	5,107	0.066	
	PHILIPPINES			950	7.967	
	REPUBLIC OF KOREA	NCC	g	8,260	-	*
	SAMOA	LDC		1,000	0.982	
	SINGAPORE	NCC	g	22,500	-	
	SOLOMON ISLANDS	LDC		810	1.309	
	SRI LANKA			640	10.223	
	TERRITORY OF HONG KONG	NCC	g	21,650	-	
	THAILAND			2,410	4.607	
	TOKELAU		d	980	0.241	
	TONGA			1,590	0.292	
	TUVALU	LDC	e	924	0.334	
	VANUATU	LDC		1,150	0.462	
	VIET NAM			200	26.325	
Asia and the Pacific total					333.515	

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Table 2 (continued)

Region	Country	Status [a]	see endnotes	1994 per capita GNP [b]	Target for resource assignment from the core under line 1.1.1 [c]
				dollars	millions of dollars
ab States	ALGERIA			1,650	1.668
	BAHRAIN	NCC	g	7,460	-
	DJIBOUTI	LDC	d	810	0.735
	EGYPT			720	9.460
	IRAQ		d	2,450	1.251
	JORDAN			1,440	1.430
	KUWAIT	NCC	g	19,420	-
	LEBANON		d	2,400	1.359
	LIBYAN ARAB JAMAHIRIYA	NCC	d, h	6,590	0.155
	MOROCCO			1,140	4.062
	OMAN	NCC	h	5,140	0.044
	QATAR	NCC	g	12,820	-
	SAUDI ARABIA	NCC	g	7,050	-
	SOMALIA	LDC	d	140	18.183
	SUDAN	LDC	d	320	17.997
	SYRIAN ARAB REPUBLIC		d	1,380	3.100
	TUNISIA			1,790	1.407
	UNITED ARAB EMIRATES	NCC	d, g	22,230	-
	YEMEN	LDC		280	16.335
ab States total					77.147

Table 2 (continued)

Region	Country	Status [a]	see en...otes	1994 per capita GNP [b]	Target for resource assignment from the core under line 1.1.1 [c]
				dollars	millions of dollars
Latin America and the Caribbean	ANGUILLA	NCC	e, i	9,933	0.161
	ANTIGUA AND BARBUDA	NCC	h	6,770	0.175
	ARGENTINA	NCC	i	8,110	1.430
	ARUBA	NCC	d, g	17,000	-
	BAHAMAS	NCC	g	11,800	-
	BARBADOS	NCC	h	6,560	0.097
	BELIZE			2,530	0.182
	BERMUDA	NCC	d, g	34,000	-
	BOLIVIA			770	4.781
	BRAZIL			2,970	2.502
	BRITISH VIRGIN ISLANDS	NCC	e, g	10,730	- *
	CAYMAN ISLANDS	NCC	d, i	28,230	0.058
	CHILE			3,520	1.668
	COLOMBIA			1,670	2.064
	COSTA RICA			2,400	0.850
	CUBA		d	1,320	2.198
	DOMINICA			2,800	0.216
	DOMINICAN REPUBLIC			1,330	3.145
	ECUADOR			1,280	2.498
	EL SALVADOR			1,360	1.954
	GRENADA			2,630	0.227
	GUATEMALA			1,200	2.097
	GUYANA			530	3.174
	HAITI	LDC		230	13.595
	HONDURAS			600	4.881
	JAMAICA			1,540	0.804
	MEXICO			4,180	1.668
	MONTSERRAT	NCC	e, h	6,795	0.073
	NETHERLANDS ANTILLES	NCC	d, g	10,810	- *
	NICARAGUA	LDC		340	8.398
	PANAMA			2,580	0.626
	PARAGUAY			1,580	1.035
	PERU			2,110	2.346
	SAINT HELENA		f	562	0.319
	SAINT KITTS AND NEVIS	NCC	h	4,760	0.175
	SAINT LUCIA			3,130	0.205
	SAINT VINCENT AND THE GRENADINES			2,140	0.339
	SURINAME			860	0.334 *
	TRINIDAD AND TOBAGO			3,740	0.334
	TURKS AND CAICOS ISLANDS	NCC	d	6,400	0.196
	URUGUAY			4,660	0.834
	VENEZUELA			2,760	0.667
Latin America and the Caribbean total					66.304

Table 2 (continued)

Region	Country	Status [a]	see endnotes	1994 per capita GNP [b]	Target for resource assignment from the core under line 1.1 [c]
				dollars	millions of dollars
Europe and the Commonwealth of Independent States	ALBANIA			380	5.413
	ARMENIA			680	3.377
	AZERBAIJAN			500	6.707
	BELARUS			2,160	0.312
	BOSNIA AND HERZEGOVINA		d	670	3.379
	BULGARIA			1,250	0.572
	CROATIA			2,560	0.194
	CYPRUS	NCC	g	10,260	-
	CZECH REPUBLIC			3,200	0.264
	ESTONIA			2,820	0.105
	FORMER YUGOSLAV REPUBLIC OF MACEDONIA			820	0.164
	GEORGIA		d	450	6.998
	HUNGARY			3,840	0.313
	KAZAKSTAN			1,160	0.751
	KYRGYSTAN			630	4.230
	LATVIA			2,320	0.122
	LITHUANIA			1,350	0.280
	MALTA	NCC	d, g	8,270	
	POLAND			2,410	0.626
	REPUBLIC OF MOLDOVA			870	0.301
	ROMANIA			1,270	0.715
	RUSSIAN FEDERATION			2,650	0.564
	SLOVAK REPUBLIC			2,250	0.183
	SLOVENIA	NCC	h	7,040	0.120
	TAJIKISTAN			360	7.347
	TURKEY			2,500	2.332
	TURKMENISTAN		d	1,070	0.537
	UKRAINE			1,910	0.377
	UZBEKISTAN			960	1.809
	YUGOSLAVIA		d	1,200	0.414
Europe and the Commonwealth of Independent States total					48.426
Grand total					991.799

(Footnotes to table on following page)

(Footnotes to table 2)

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* Indicates a change has occurred.

[a] LDC - least developed country.
NCC - net contributor country.

[b] World Bank data unless otherwise indicated.

[c] In accordance with paragraph 17 of decision 95/23. Actual TRAC issued to net contributor countries may be lower than the indicated TRAC as per decision 91/29.

[d] 1994 per capita GNP estimates provided by the World Bank are used.

[e] 1994 per capita GNP estimates provided by the United Nations Statistical Office are used.

[f] 1994 per capita GNP estimate as extrapolated from 1989 data is used.

[g] Net contributor country that does not receive an established TRAC in accordance with paragraph 21 of decision 95/23.

[h] Net contributor country that receives an established, fully reimbursable TRAC in accordance with paragraph 21 of decision 95/23.

[i] Net contributor country that receives a transitional, fully reimbursable TRAC in accordance with paragraph 23 of decision 95/23.

[j] Equal to 60 per cent of total TRAC resources (lines 1.1.1 and 1.1.2) of $1,663 million.

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OTHER FUNDS AND PROGRAMMES

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Report of the Administrator

Summary

UNCDF projects are largely directed by its focus on reducing poverty through approaches that promote good local governance, a dynamic private sector and the participation of civil society in development initiatives. To that end, UNCDF is increasing its activity in its innovative areas of intervention: local development funds, eco-development and microfinance. These efforts, carried out in close partnership with Governments and UNDP, build upon and support efforts in least developed countries towards democratization, decentralized decision-making and the devolution of resource management to local government authorities and community organizations. Based on the recommendations of a capacity assessment report, UNCDF is currently revising its entire project cycle to allow for increased local participation in project design. It also is working to integrate fully all lessons learned into key decision-making stages of the project cycle.

The Executive Board may wish to take note of the Executive Report, to endorse and support the efforts of UNCDF to concentrate its area of activity on good local governance, decentralization and participation within the context of its mandate, and to encourage all countries to increase their contributions to the Fund.

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I. PURPOSE AND BACKGROUND

1. The present report responds to Executive Board decision 95/9, in which the Board encouraged the Administrator to continue to refine the community development focus of the United Nations Capital Development Fund (UNCDF).

2. In the light of Executive Board decision 95/9, UNCDF has brought dramatic change to the way that it does business. The Fund has refined its focus, taken risks, initiated steps to maximize the impact of its programmes and strengthened its resource mobilization to the point where the contribution UNCDF makes to the overall development picture is far greater than its relative size. In fact, precisely because it is small, UNCDF is able to develop innovative and experimental approaches that can be replicated on a bigger scale by larger donors and other United Nations bodies. UNCDF has learned from its active engagement in community development that sustainable poverty reduction can come about only in an environment of good local governance and community participation. With the publication of its policy paper, Poverty Reduction, Participation and Local Governance: The Role for UNCDF, in August 1995, UNCDF formalized this new focus into official policy. An emphasis on local governance is meaningful only if UNCDF works in environments where key fiscal and managerial functions for capital investments in rural infrastructure are decentralized by Governments to the relevant local authorities, and where those authorities are able to make their investment decisions in direct consultation with civil society. Under these circumstances, the Fund is in a unique position to leverage its grant capital assistance as an incentive, binding together communities, local government and the private sector in partnership.

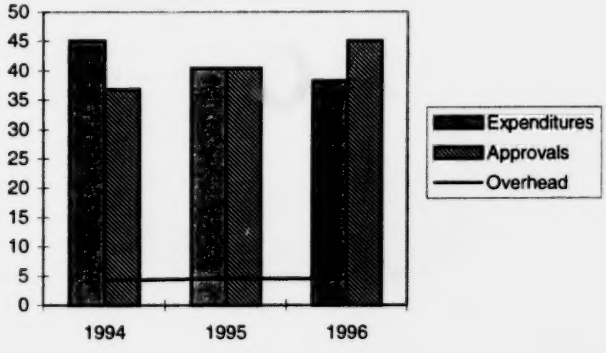
3. In November 1995, UNCDF presented its donors with a plan to make significant progress over the next three years towards achieving the objectives stated in the policy paper, provided that a sufficient level of financial security could be guaranteed. The Fund then requested sponsorship for a capacity assessment study to identify weaknesses that should be addressed to achieve the policy objectives. In its final report, presented in July 1996, the assessment team confirmed that UNCDF is capable of reaching the grass-roots level and with innovative project interventions and that it has the potential for playing an important catalytic role in international development cooperation. It was also stated in the re;port that much work remains to be done to implement the very ambitious policy UNCDF has chosen. In response to the assessment, UNCDF developed an action plan and is now implementing key recommendations. UNCDF has taken this challenge seriously: progress on implementation of the action plan will be reviewed at the end of 1997 and, two years later, the Fund's usefulness as an effective development organization for the twenty-first century will be determined. If UNCDF is not showing satisfactory progress by 1999, the donors may opt to stop their funding.

II. PROGRAMME ACTIVITIES

4. UNCDF activities in 1995-1996. Projects approved by UNCDF during the biennium have been largely directed by its focus on reducing poverty through approaches that promote good local governance, a dynamic private sector and the participation of civil society in development initiatives. These efforts,

carried out in close partnership with Governments and UNDP, build upon and support efforts in least developed countries (LDCs) towards democratization, decentralized decision-making and the devolution of resource management to local government authorities and community organizations. Field experience has shown that when ownership and administration are retained locally, there is a greater likelihood that investments will correspond to local needs and that infrastructure will be maintained beyond the project cycle. For this reason, UNCDF has continued to increase and expand its collaboration with local authorities, concentrating on more demand-driven mechanisms for the delivery of infrastructure, the planning and management of public investment programmes and capacity-building at the local level. New UNCDF project approvals totalled $40.4 million in 1995 and $50 million in 1996. While approvals are increasing, the Fund's reserves are declining. The reserves are kept at twice the mandatory level to ensure that UNCDF can meet its ongoing commitments for at least two years. In addition, UNCDF overhead costs have remained low. As a result of stricter financial controls, the amount in outstanding commitments also is dropping yearly, from $241.5 million in 1993 to $200.5 million in 1996 (see figure 1).

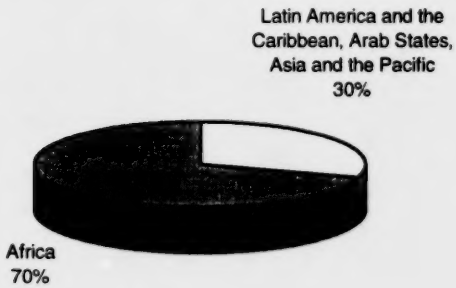
Figure 1 Expenditures, approvals and overhead, 1994-1996



5. True to its new policy focus, UNCDF has increased activity in its innovative areas of intervention: local development funds, eco-development and microfinance. During the former biennium, blueprint infrastructure projects, including irrigation schemes, rural roads, markets, water supply and sanitation systems, educational and health facilities, accounted for 73 per cent of funds approved. In the current biennium, these figures are decreasing slightly to allow for an increase in funding to local development and eco-development funds from the former level of 14 per cent to the current level of 44 per cent. Funding to credit and guarantee schemes increased from 7 per cent to 21 per cent. Currently, 70 per cent of UNCDF programme resources are being spent in Africa, with the remaining 30 per cent divided between Asia, the Arab States and Latin America (see figures 2 and 3).

Figure 2 UNCDF funding allocation 1993-1994 and 1995-1996

Figure 3 UNCDF geographic disbursement



6. Local development funds. Local development funds (LDFs) are decentralized financing facilities accessed and managed by local authorities and communities for demand-driven public investments in small-scale rural infrastructure. An LDF project in Cambodia ($3 million) provides funding for the construction of priority rural infrastructure projects that have been identified through a participatory planning process, involving communities at the grass-roots level. The second phase of a project in the Palestinian Territories ($3 million) was approved in 1996. The project is set up to empower village councils and communities to identify, prioritize, prepare and implement local micro-investment projects to improve socio-economic conditions. Micro-projects include rural roads, primary schools, land reclamation, waste management and health facilities. Another important component is to test the methodology for replication.

7. Eco-development. Eco-development is an approach that supports "eco-swaps", in which communities enter into contractual agreements to work towards long-term restoration of ecologically fragile areas in exchange for investments to meet immediate needs of the community, such as energy, irrigation or shelter. The eco-development project in Ambato Boeni, Madagascar, seeks to improve rural-urban migration patterns that have contributed to a deterioration of local ecosystems. The programme, totalling $5.8 million, has two components: a rural development initiative to support community management in 45 villages, and a project to improve urban-rural exchanges by establishing a municipal development fund to undertake urgent rehabilitation work. In Mauritania, the $11 million Assaba Regional Investment Programme awards local development contracts for sustainable village land management while financing economic and community development projects that have been identified by the local population as being of high priority.

8. Credit and guarantee activities. To respond to community needs and to identify innovative ways of extending credit, UNCDF supports decentralized and rural-based micro-credit schemes for the poor and assists local financial intermediaries (local branches of formal banks, NGOs offering financial services, village banks or cooperatives, etc.) to get the necessary capital to finance loans to micro-entrepreneurs. During the 1995-1996 biennium, the Fund brought credit opportunities to an increasing number of beneficiaries at the village and community level. For example, in partnership with UNDP, UNCDF assisted Lesotho in a $2.4 million project to achieve greater economic independence in part by promoting domestic entrepreneurship and employment opportunities. In addition to providing credit to small enterprises, the project extended a guarantee facility to the Lesotho bank as an incentive to reach out to small borrowers and strengthened the local credit extension network. In Mwanza, Tanzania, a $2.6 million project is creating mechanisms to mobilize local savings and supply credit to rural and urban micro-entrepreneurs. In a separate initiative, UNCDF also contributed as a founding member to the establishment of the World Bank-led Consultative Group to Assist the Poorest (CGAP). This group supports micro-finance institutions that deliver credit and/or savings services to the very poor.

9. Concurrent with its funding activities, UNCDF is actively engaged in promoting technical cooperation and dialogue among LDCs, allowing local development professionals to benefit from one another's experience. In 1995, UNCDF facilitated a seminar on district development planning to enable Ugandan officials to benefit from the experience of a UNCDF project in Quang Nam Da Nang Province, Viet Nam. A similar activity in 1996 enabled a group of professionals from Malawi to attend development and planning seminars in Uganda. These South-South exchanges also include initiatives to bring together researchers and practitioners involved in UNCDF local development fund projects in different countries to discuss common design and implementation problems.

10. UNCDF has initiated several fundamental changes that should improve the quality of new project design. While operating from a solid foundation of experience, the Fund is constantly reaching into new realms of experimentation to find innovative and more efficient ways to operate and to overcome challenges and obstacles. Based on the recommendations of the capacity assessment report mentioned above, UNCDF is currently revising its entire project cycle, which has

traditionally been headquarters-based. For example, the traditional programming mechanism, the planning and project identification mission (PPIM), has been abolished in favour of a more field-driven process that begins with dialogue and participatory planning at the local level. Project formulation has also been modified to incorporate systematically a variety of consultative processes, such as stakeholder workshops and participatory rural appraisals. In general, more investment is being made in pre-formulation activities, and adjustments in the project cycle emphasize verification of initial assumptions and more thorough consultation with partners.

11. Evaluations. From 1992 to 1996, UNCDF evaluated 44 projects, most of which were formulated before the implementation of the Fund's new policy focus. In line with its commitment to transparency, UNCDF has regularly published its evaluation results, both positive and negative. On the positive side, some projects achieved impressive success when they combined sound project concept with optimum involvement of beneficiaries. On the negative side, the findings indicated continued problems in the area of project design, frequent lack of institutional sustainability and often a partial achievement of objectives. Finally, the findings demonstrated mixed but steadily improving performances in community participation, equipment procurement and relevance, staff management and training, and time and cost overruns. New formulation procedures addressing these design problems were recently introduced, as mentioned above.

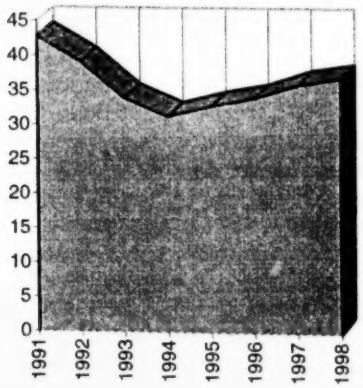
12. UNCDF has recognized that it needs an effective mechanism for the full integration of lessons learned into key decision-making stages of the project cycle. To this end, UNCDF is systematically preparing evaluation action plans that incorporate main recommendations to be implemented by project partners. Progress towards the fulfilment of these plans is monitored annually. The record so far has been satisfactory, with 50 per cent of recommendations fully implemented, 25 per cent partly implemented and only 25 per cent unobserved. UNCDF will establish an evaluation review committee to ensure the incorporation of lessons learned in one project into similar projects under formulation. Several other changes were brought to UNCDF monitoring and evaluation systems in 1995, with an emphasis on improving the rigour and quality of evaluations and introducing more professional methods and tools. New projects must now be formulated with a comprehensive monitoring and evaluation plan, including budgets, staffing arrangements and timetables for monitoring and evaluation activities, a very different approach from the relatively cursory treatment monitoring and evaluation has been given in the past. Key performance indicators and terms of reference for baseline data collection are now required of every project agreement. To assist this process, a tool kit with performance indicators by sector and guidelines for collecting baseline data has been developed and referenced in the Programme Operations Manual. Finally, UNCDF is also pioneering the involvement of local partners in designing and using monitoring and evaluation tools. Participatory evaluation techniques such as village monitoring cells and beneficiary assessments have been piloted. Considering that the definitions of project success by beneficiaries themselves can provide a more revealing measure of progress and impact, UNCDF has started organizing stakeholder workshops in order to select project performance indicators.

13. Restructuring. Over the last two years, UNCDF has taken a certain number of steps to improve its internal efficiency as well as its responsiveness to field concerns. In March 1995, the Fund abolished the two posts of division chief, and created a streamlined staff structure that offered both savings in administrative overheads and improved operational efficiency at headquarters. In addition, as part of its own efforts at organizational decentralization, the Fund will outpost country officers from headquarters to the field. It also has delegated additional authority to programme officers in recipient countries.

14. Joint programming. Efforts to ensure the complementarity and consistency of UNCDF programming with UNDP country programmes have increased substantially during 1995-1996. While there has always been a high degree of cooperation between the two, there is now greater synergy. Regarding co-financing at the country level, there are several strong examples of UNCDF projects that leverage UNDP resources. In Bhutan, UNCDF credit and LDF activities are closely integrated with the UNDP country cooperation framework to promote good governance and sustainable livelihood. A $2 million project in Malawi provides capital grant support for micro-projects involving the rehabilitation or improvement of small-scale social and economic infrastructure. In Uganda, UNCDF and the World Bank are designing a local development fund, whereby UNCDF will commit $8 million to pilot a participatory infrastructure planning approach. Upon success of the pilot, the World Bank will contribute up to $100 million to broaden the scope of the fund. In Cambodia, UNCDF has two local development fund projects, both of which were structurally integrated into the UNDP/United Nations Office for Project Services Cambodia Rehabilitation and Resettlement (CARERE) project at the formulation phase. In Zambia, the $3.7 million, five-year District Development Planning and Implementation project exemplifies UNDP and UNCDF joint support to decentralized financing, planning and management of the infrastructure.

15. Financial management. From a record level of $42.8 million in 1991, contributions decreased significantly to $39.2 million in 1992; $33.8 million in 1993; and $31.4 million in 1994. The year 1995, however, witnessed an increase in contributions to $32.9 million, with $34 million expected as a total in 1996. The projected totals expected for 1997 and 1998 are $35 million and $37 million respectively (see figure 4). The increase in contributions and UNCDF core funding for the next three years is a direct result of the challenge that it issued to donors. In a decision reached earlier in 1996, UNCDF major donors (in a meeting at which the Governments of Belgium, Denmark, France, Japan, the Netherlands, Norway, Sweden and Switzerland were represented) agreed to continue financing UNCDF at current or increased levels through 1999. During this period, the Fund should demonstrate greater effectiveness in implementing its policies favouring decentralization and local governance. The donors recognized that the new UNCDF policy focus is aimed at giving new momentum to the work of the organization. In 1999, the donors will undertake an evaluation of UNCDF performance, on which they will report to the Executive Board. If the Fund has not made sufficient progress towards implementing its new policies by that time, its funding may be discontinued.

Figure 4 UNCDF contributions 1991-1998 (1996-1998 estimated)



III. EXECUTIVE BOARD ACTION

The Executive Board may wish to:

1. Take note of the present report;

2. Appeal to all countries to increase their contributions to the United Nations Capital Development Fund;

3. Endorse and support the United Nations Capital Development Fund efforts to concentrate its area of activity on good local governance, decentralization and participation within the context of its mandate.